

**UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA**

DR. CHIA L. LIU,

Plaintiff,

v.

WATEC AMERICA CORP.,

Defendant.

Case No. 2:07-CV-0863-KJD-RJJ

ORDER

Currently before the Court is Defendant Watec America Corp.'s ("Watec" or "Watec America") Motion for Summary Judgment (#52), filed March 17, 2008. Plaintiff filed a Response (#56), on April 4, 2008, to which Defendant filed a Reply (#18), on April 18, 2008.

I. Background

On December 7, 1999, Watec America obtained federal registration from the United States Patent and Trademark Office ("USPTO") for the LCL Mark in international classification 009 and United States classifications 021, 023, 026, 036, and 038 for various photographic cameras and camera parts. Since receiving the registration, Watec America has continued to use the LCL Mark to sell charged-couple device ("CCD") security cameras and related products.¹

¹Because Watec America continuously used the LCL Mark for over six (6) years, the USPTO issued a statement of incontestability for the registration of the LCL mark.

1 In October 2000, Watec Co. Ltd. (“Watec Japan”) sued Watec America and its president (Dr.
2 Liu) for breach of an exclusive distributorship agreement and for infringement of other trademarks.
3 Watec Japan obtained a multi-million dollar judgment against Watec America and Liu, which
4 included a permanent injunction barring Watec America and Liu from using Watec Japan’s
5 trademarks. In March 2005, the Ninth Circuit affirmed the judgment. See Watec Co. Ltd. V. Chia
6 Liu, 403 F.3d 645 (9th Cir. 2005).

7 Unable to satisfy Watec Japan’s judgment, on December 5, 2003, Watec America filed a
8 Voluntary Chapter 11 Bankruptcy Petition in United States Bankruptcy Court for the District of
9 Nevada. During the bankruptcy proceedings, Watec Japan and Liu filed competing plans for re-
10 organization. Additionally, while the proposed plans were under the court’s submission, Watec
11 Japan filed an adversary proceeding against Liu alleging fraudulent transfers and self-dealing during
12 his management of Watec America after it had petitioned for bankruptcy. In an effort to resolve the
13 Watec Japan judgment and adversary proceeding against Liu, together with Watec America’s re-
14 organization, Liu and Watec Japan entered into a Memorandum Agreement on March 31, 2005
15 (“2005 Memorandum Agreement”) which set forth specific terms upon which all claims would be
16 settled between Liu, Watec, and other interested parties.

17 Under the 2005 Memorandum Agreement, Liu was required to transfer his interest in Lake
18 Las Vegas real property to Watec Japan. Additionally, Watec America, as the reorganized debtor,
19 was to grant Liu an exclusive trademark license in the LCL Mark, including all common law rights
20 under the Mark for a period of two years.² The Memorandum Agreement also provided that Watec
21 America was to retain such rights in the LCL trademarks as necessary to liquidate the company’s
22 then-current inventory of LCL products, and that “[a]t the expiration of [the] two year period, the
23 reorganized debtor [Watec America] shall transfer ownership of the LCL trademark to Dr. Liu.”
24 (Pl.’s Compl. Ex. B ¶ 2, Cabanday Decl. Ex. 11.)

25
26 ²As set forth in the 2005 Memorandum Agreement however, the transfer of the trademark license to Dr. Liu did
“not include any trade secrets or their intellectual property held by Watec America.” (54-5 ¶ 2.)

1 Under the 2005 Memorandum agreement, Liu was to “assign his beneficial interest in and to
2 any professional negligence claim that he [then owned] against his attorneys to Watec. (Id. at ¶ 6.)
3 Also, pursuant to the 2005 Memorandum, Liu was to stipulate to a permanent injunction in favor of
4 Watec America barring him *inter alia* from using the trademarks or representing that he sold or was
5 in any way affiliated with Watec America. (Id. at ¶ 8.) Additionally, Watec Japan’s proposed
6 creditor plan was to be entered without objection by Liu, and Liu’s personal Chapter 11
7 reorganization plan was to be modified to reflect the provisions set forth in the 2005 Memorandum
8 Agreement.

9 On April 14, 2005, the United States Bankruptcy Court entered an Order Confirming Second
10 Revised Creditor’s Plan of Reorganization (the “Confirmation Order”) which incorporated the 2005
11 Memorandum Agreement between Liu and Watec. Between April 1, 2005, and July 15, 2005, Watec
12 Japan made repeated requests to Liu that he fulfill the conditions of the 2005 Memorandum
13 Agreement. Here, Defendant alleges that Liu refused to satisfy the conditions. Additionally,
14 Defendant avers that it discovered that during this period of time, Liu took measures to sabotage
15 Watec America’s operations, such as destroying computer databases, refusing to transfer bank
16 accounts, and withholding computer passwords necessary to access information and records. (See
17 Def.’s Mot. for Summ. J. at 4.) As a result, on July 15, 2005, Watec Japan, and Watec America filed
18 another adversary proceeding against Liu and his family, asserting claims for breach of contract,
19 breach of the implied covenant of good faith and fair dealing, fraud, conversion, and other related
20 claims. (Id. at 5.)

21 As a result of the adversary proceedings, and upon order from the bankruptcy court, the
22 parties entered into mediation on May 15, 2006. On May 16, 2006, the parties entered into a written
23 settlement agreement (“the 2006 Settlement”) indicating that it had been entered into by the parties
24 “to settle all differences, disagreements and disputes that exist or may exist among them based on
25 any and all dealings with each other at any time prior to this Agreement. . . .” (Def.’s Mot. for
26 Summ. J. at 5; Laxague Decl. Ex. 6.)

1 According to the 2006 Settlement, Liu and his family were to pay \$1.25 million to Watec
2 America and Watec Japan jointly, over time, memorialized by a promissory note secured by real
3 property owned by Liu. Watec Japan and Watec America agreed to dismiss the adversary
4 proceedings against Liu, and Liu waived the attorney-client privilege concerning his former
5 representation so that Watec America could pursue negligence claims. (Laxague Decl. Ex. 2 at ¶ 3.)
6 Additionally, Watec America and Watec Japan provided Liu *inter alia* a general release of all claims
7 “whether known or unknown, suspected or unsuspected, which it had now against [Liu] . . . from the
8 beginning of time to the execution of the agreement.” (Id. at ¶ 6.) Likewise, Liu and his family
9 provided Watec America and Watec Japan with an unconditional general release of all claims
10 “whether known or unknown, suspected or unsuspected, which it had now against [them] from the
11 beginning of time to the execution of this agreement.” (Id. at ¶ 7.)

12 On June 29, 2007, Plaintiff Dr. Chia L. Liu (“Liu”) filed a Complaint in this Court against
13 Watec America alleging five claims for relief for, (1) declaratory relief; (2) replevin/claim and
14 delivery; (3) specific performance; (4) federal trademark infringement; and (5) federal unfair
15 competition.³ Specifically, Plaintiff’s Complaint seeks to enforce the 2005 Memorandum
16 Agreement, by averring that Watec has failed to comply with the 2005 Memorandum and subsequent
17 bankruptcy Court Confirmation Order by failing to reincorporate as “Reorganized Watec America
18 Corp.,” and by failing to assign all rights, title, and interest in the LCL Mark to Dr. Liu on April 1,
19 2007.

20 On July 23, 2007, Defendant filed a Motion to Dismiss Plaintiff’s second, fourth and fifth
21 claims for relief. In response, Plaintiff conceded that his claims for federal trademark infringement
22 and unfair competition were premature and should be dismissed. On October 16, 2007, the Court
23 issued an Order granting Defendant’s Motion, leaving only Plaintiff’s first and third claims, for
24

25 ³Plaintiff’s Complaint lists two “third claim(s) for relief”, for specific performance and federal trademark
26 infringement, respectively. Here, the Court will refer to Plaintiff’s claim for specific performance as the third claim for relief.

1 declaratory relief and specific performance, respectively. Specifically, Plaintiff's remaining claims
2 seek that the Court issue an Order declaring him the rightful owner of the LCL Mark and all
3 associated common law rights thereto, and compel Watec to perform its obligations under the 2005
4 Memorandum Agreement and assign/transfer the LCL Mark and all common law rights associated
5 with it, to him.

6 Here, Watec America's Motion for Summary Judgment seeks that the Court dismiss
7 Plaintiff's remaining claims under various theories. Specifically, Watec America avers that Plaintiff
8 cannot succeed in his efforts to enforce the 2005 Memorandum because (1) Watec America was not a
9 party to the 2005 Memorandum; (2) because Liu materially breached the 2005 Memorandum,
10 thereby discharging any obligations Watec America may have had under it; and, (3) because Liu
11 released any obligation of Watec America under the 2005 Memorandum when he subsequently
12 entered the May 2006 Settlement Agreement. Additionally, Watec avers that the assignment of LCL
13 trademark as outlined in the 2005 Memorandum is void on its face, because it constitutes an invalid
14 trademark assignment in gross. Plaintiff, in opposition, contends that Watec America was a party to
15 the 2005 Memorandum because Liu executed the Agreement in his official capacity as "President of
16 Watec America Corp," and because Watec America, as the "reorganized debtor" received certain
17 benefits, and undertook certain obligations under the memorandum. Liu also argues that he did not
18 breach the 2005 Memorandum agreement, but rather, attempted performance or was prevented from
19 performance by Defendant's actions. Additionally, Liu argues that the 2006 Settlement Agreement
20 incorporated the 2005 Memorandum Agreement, including Watec America's obligation to assign the
21 trademark to Liu, and that the assignment of the LCL trademark as outlined in the 2005
22 Memorandum Agreement is valid.

23 **II. Standard of Law for Summary Judgment**

24 Summary judgment may be granted if the pleadings, depositions, answers to interrogatories,
25 and admissions on file, together with affidavits, if any, show that there is no genuine issue as to any
26 material fact and that the moving party is entitled to a judgment as a matter of law. See Fed. R. Civ.

P. 56(c); see also Celotex Corp. v. Catrett, 477 U.S. 317, 322 (1986). The moving party bears the initial burden of showing the absence of a genuine issue of material fact. See Celotex, 477 U.S. at 323. The burden then shifts to the nonmoving party to set forth specific facts demonstrating a genuine factual issue for trial. See Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 587 (1986); Fed. R. Civ. P. 56(e).

All justifiable inferences must be viewed in the light most favorable to the nonmoving party. See Matsushita, 475 U.S. at 587. However, the nonmoving party may not rest upon the mere allegations or denials of his or her pleadings, but he or she must produce specific facts, by affidavit or other evidentiary materials provided by Rule 56(e), showing there is a genuine issue for trial. See Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 256 (1986). The court need only resolve factual issues of controversy in favor of the non-moving party where the facts specifically averred by that party contradict facts specifically averred by the movant. See Lujan v. Nat'l Wildlife Fed'n., 497 U.S. 871, 888 (1990); see also Anheuser-Busch, Inc. v. Natural Beverage Distribs., 69 F.3d 337, 345 (9th Cir. 1995) (stating that conclusory or speculative testimony is insufficient to raise a genuine issue of fact to defeat summary judgment). “[U]ncorroborated and self-serving testimony,” without more, will not create a “genuine issue” of material fact precluding summary judgment. Villiarimo v. Aloha Island Air Inc., 281 F.3d 1054, 1061 (9th Cir. 2002).

Summary judgment shall be entered “against a party who fails to make a showing sufficient to establish the existence of an element essential to that party’s case, and on which that party will bear the burden of proof at trial.” Celotex, 477 U.S. at 322. Summary judgment shall not be granted if a reasonable jury could return a verdict for the nonmoving party. See Anderson, 477 U.S. at 248.

III. Analysis

A. Watec America and the 2005 Memorandum

Watec America avers that Plaintiff’s claims for declaratory judgment and specific performance regarding the terms of the 2005 Memorandum Agreement must fail because Watec America was not a party to the 2005 Memorandum decision. Defendant’s argument fails.

1 The 2005 Memorandum Agreement was entered into between Dr. Liu on one hand, and
 2 Watec Japan on the other, as a result of Watec America's bankruptcy proceedings, and in an effort to
 3 resolve the underlying Watec Japan judgment and adversary proceeding against Liu, together with
 4 the parties' competing plans for re-organization. The Memorandum Agreement sets forth specific
 5 benefits and obligations to be inherited by the "Reorganized Debtor," Watec America. Among other
 6 things, under the Agreement, as the Reorganized Debtor, Watec America, was transferred real
 7 property owned by Dr. Liu. Also in the Agreement, Liu assigned his beneficial interest in and to any
 8 professional negligence claim that he then owned against his attorneys to Watec. Additionally, by
 9 Order of April 14, 2005, the Bankruptcy Judge in Watec's Chapter 11 proceeding confirmed Watec
 10 Japan's Second Revised Creditor Plan, which identified Watec as the "Debtor" and Watec Japan as
 11 the "Plan Proponent", and recognized the 2005 Memorandum Agreement, stating that the parties had
 12 "entered into a binding settlement agreement." (Supplement to Mangano Decl. Ex. 1, Ex.1 at G.)

13 Without addressing Plaintiff's remaining arguments in this regard, the Court finds sufficient
 14 evidence to create a genuine issue of material fact as to whether Watec America was a party to the
 15 2005 Memorandum Agreement.

16 **B. Liu's Alleged Material Breach the 2005 Memorandum**

17 Defendant also argues that Plaintiff's claims for declaratory judgment and specific
 18 performance under the 2005 Memorandum Agreement must fail because Liu materially breached the
 19 Agreement. Specifically, Watec America avers that Liu breached the agreement by (1) failing to
 20 transfer the Lake Las Vegas property to Watec Japan; (2) failing to transfer his beneficial interest in
 21 the negligence claims he had against his former attorneys; (3) failing to stipulate to the modification
 22 of the Watec Japan judgment permanent injunction; and (4) failing to seek modification of his
 23 confirmation plan in his personal bankruptcy so that Watec Japan would obtain clear title to the Lake
 24 Las Vegas property. Defendant, in opposition, contends that Watec's allegations that Liu breached
 25 the 2005 Memorandum Agreement can be attributed to Watec's counsel's "lack of diligence in
 26 reviewing and responding to Dr. Liu's counsel's correspondence." (Pl.'s Opposition at 14.)

1 Additionally, Liu alleges that Watec's counsel refused to negotiate agreeable content for the
 2 stipulated permanent injunction, LCL license agreement, and other proposed addendums to the
 3 Memorandum Agreement. (*Id.*)

4 A material breach by one party to a contract may excuse further performance by another party
 5 to the contract. See Young Elec. Sign Co. v. Fohrman, 466 P.2d 846, 847 (Nev. 1970). "[T]he party
 6 who commits the first breach of a contract cannot maintain an action against the other for a
 7 subsequent failure to perform." Bradley v. Nev.-Cal.-Or. Ry., 178 P. 906, 908-09 (Nev. 1919).
 8 However, "a party is not automatically excused from the future performance of contract obligations
 9 every time the other party commits a breach; if the breach is relatively minor and not of the essence,
 10 the plaintiff is still bound by the contract and may not abandon performance" 23 Williston on
 11 Contracts § 63:3 (4th ed. 2007).

12 Whether there has been a material breach of contract turns upon the seriousness of the breach
 13 and the likelihood that the injured party received substantial performance of the contract promise.
 14 AMJUR CONTRACTS § 706. Generally, a material breach occurs when there is a breach of an
 15 essential element of the contract which induced the party to enter into it. Further, the breach must go
 16 to the substance of the contract, or defeat an essential purpose of the contract. *Id.*

17 ***1. Transfer of the Lake Las Vegas Property***

18 Watec's Motion for Summary Judgment avers that Liu materially breached the 2005
 19 Memorandum Agreement by failing to transfer the Lake Las Vegas property to Watec Japan as
 20 required in Section 1 of the Agreement, until Watec Japan filed an adversary proceeding against him.
 21 Liu, in opposition, contends that he did not breach the 2005 Memorandum Agreement by failing to
 22 transfer the property, but that Watec filed the adversary action against him without realizing that his
 23 counsel had advised Watec's counsel on July 12, 2005, that the Grant Bargain and Sale Deed had
 24 already been executed for the Lake Las Vegas property—prior to Watec's filing of the adversary
 25 proceeding.
 26

1 Additionally, Watec's counsel has admitted that the adversary proceeding was initiated by
2 Watec with complete ignorance of the July 12, 2005 letter from Liu's counsel to Watec's counsel,
3 regarding Liu's execution of the Grant, Bargain, and Sale Deed of the property. Thus, the Court
4 finds that Defendant's claim that Liu breached the 2005 memorandum Agreement by refusing to
5 transfer the Lake Las Vegas property fails.

6 ***2. Transfer of Interest in Claims***

7 Watec's Motion for Summary Judgment also avers that Dr. Liu breached the 2005
8 Memorandum Agreement by failing to transfer his beneficial interest in the legal
9 malpractice/negligence claims he had against his former attorneys. Liu, in opposition, contends that
10 he did not execute a formal assignment of said claims to Watec because his counsel objected to
11 certain terms in the draft agreement provided by Watec's counsel.⁴ Liu avers that his counsel sent a
12 letter to Watec's counsel in July, 2005, stating his belief that the terms of the draft settlement
13 agreement contained "superfluous" or "non-comtemplated" provisions that were not included in the
14 terms of the 2005 Memorandum Agreement. (Sylvester Decl. Ex D.) Liu claims that Watec's
15 counsel responded to his counsel's letter on August 10, 2005, yet never sent a revised draft that
16 addressed the concerns he had expressed regarding in the draft agreement. (See Sylvester Decl. ¶
17 10.)

18 ***3. Modifications of Preliminary Injunction***

19 Similarly, Watec's Motion for Summary Judgment also avers that Dr. Liu breached the 2005
20 Memorandum Agreement by failing to stipulate to the modification of the Watec Japan judgment
21 permanent injunction. Liu in opposition, avers that he did not fail to execute a modified permanent
22 injunction, or in the alternative, that his nonperformance should be excused, because Watec "took no
23 _____

24
25 ⁴According to the letter, Liu's counsel objected to the terms of the draft agreement regarding, *inter alia*, the
26 assignment of proceeds, trademark license agreement, stipulated permanent injunction, and the assignment for Dr. Liu's
 malpractice claims. (See Sylvester Decl. Ex. D.)

1 efforts to raise the non-execution during the two year period following the 2005 Memorandum
2 Agreement.

3 Watec responds by asserting that it attempted to obtain the proposed injunction, including
4 sending drafts of the injunction to Liu's counsel. According to Watec, Liu's counsel rebuffed the
5 demands and refused to provide a draft of his own. (Def.'s Reply at 5.)

6 ***4. Modification of Confirmation Plan.***
7

8 Watec also alleges that Dr. Liu has breached the 2005 Memorandum Agreement by failing to
9 seek modification of his confirmation plan in his personal bankruptcy proceedings so that Watec
10 Japan would obtain clear title to the Lake Las Vegas property. Liu, in opposition, claims that he was
11 not obligated to modify his Chapter 11 bankruptcy plan of reorganization pursuant to the language of
12 the 2005 Memorandum Agreement, and representations made to the bankruptcy judge by Watec's
13 counsel. Specifically, Liu points out that the 2005 Memorandum Agreement states "the confirmed
14 plan of reorganization in Dr. Liu's personal Chapter 11 case shall be modified to reflect the
15 provisions in this agreement." (Cabanday Decl. Ex. 11.) Liu claims that counsel for Watec
16 represented to the bankruptcy judge in the April 1, 2005, hearing that Watec would undertake the
17 obligation to modify Dr. Liu's confirmed creditor plan. Additionally, Liu claims that the confirmed
18 plan of reorganization in Dr. Liu's personal bankruptcy action was filed by Watec Japan, and thus
19 that Watec is the party with standing to file a modified plan of reorganization. (Pl.'s Response at 16.)

20 Liu attempts to further buttress his argument by referencing correspondence from Watec's attorney
21 seeking feedback on a draft of the Revised Creditor Plan of Reorganization, and argues that Dr. Liu's
22 consent is not required for the modified plan of reorganization, and that Watec only sought
23 "feedback" as to the reorganization plan, and not that Liu present his own reorganization plan.

24 The Court finds both parties' claims in this regard to be somewhat disingenuous. While Liu
25 argues that he was not obligated under the 2005 Memorandum Agreement to file a reorganization
26 plan, he fails to note that he never responded or provided feedback to Watec's proposed modified

1 reorganization plan. (See Mangano Decl. Ex. C.) Likewise, Watec claims that Liu has breached the
2 2005 Memorandum Agreement by failing to provide a modified reorganization plan, when its
3 representation to the bankruptcy judge does not indicate that Liu alone would be responsible to file a
4 confirmed creditor plan. Further, Watec's statement to the bankruptcy court when asked if they were
5 going to modify Mr. Liu's plan, was that the plan needed modification, but "not in any major
6 respect." (Sylvester Decl. Ex. C. 8:21-24.) Now, Watec argues that Liu's failure to file a modified
7 plan is a material breach of the 2005 Memorandum Agreement. Additionally, Liu's counsel's
8 correspondence of July 12, 2005, to Watec's counsel clearly sets forth Liu's understanding of what
9 was required of him under the 2005 Memorandum Agreement. Nowhere in this correspondence does
10 Liu's counsel mention the necessity of filing a modified reorganization plan. Had Watec expected as
11 much of Liu, it may have so indicated in its response, but at least was put on notice of Liu's
12 understanding that he did not believe he was obligated to file a modified reorganization plan.

13 Accordingly, while recognizing that Liu's behavior in failing to respond or provide feedback
14 regarding Watec's proposed reorganization plan is not a model of good behavior, the Court does not
15 find his failure to file the plan altogether, to be a material breach of the Memorandum Agreement
16 sufficient to preclude Watec's performance of its obligations under the Agreement.

17 **C. The May 2006 Settlement Agreement**

18 Watec also seeks summary judgment of Liu's remaining claims by arguing that the 2006
19 Settlement Agreement contains a general and unconditional release in which Liu agreed that all
20 issues, claims and liabilities Watec may have owed him, including any obligations under the 2005
21 Memorandum Agreement, would be absolved, and that such release bars Dr. Liu's claims for
22 assignment of the LCL Mark. Liu, in opposition, argues that the 2006 Settlement Agreement
23 expressly integrated the terms and conditions of the 2005 Memorandum Agreement, including
24 Watec's obligation to assign Liu the LCL Mark.
25

26 Section 7 of the 2006 Settlement Agreement contains a general release which states,

1 **General Release by [Liu] to Watec America and Watec Japan.** Except to the
 2 extent provided herein, [Dr. Liu] . . . [does] hereby release and absolutely forever
 3 discharge Watec America and Watec Japan . . . of and from any and all claims,
 4 demands, debts, liabilities, obligations, accounts, and causes of action of every kind
 5 and nature whatsoever, whether now known or unknown, suspected or unsuspected,
 6 which [he] had or now [has] against the others, or any of them, from the beginning of
 7 time to the execution of this agreement.

8 (Lexague Decl. Ex. 6 ¶ 7.) Additionally Section 10 of the 2006 Settlement Agreement contains an
 9 integration clause which states,

10 **Integration\Modification.** This instrument contains the entire agreement and
 11 understanding concerning the pending adversary proceedings, settlement thereof, and
 12 the subject matter therein, and supercedes and replaces all prior negotiations and
 13 agreements between Parties hereto, or any of them, whether written or oral, **with the**
 14 **exception of the Memorandum of Agreement executed by the Parties on March**
 15 **31, 2005, as supplemented by the Parties on the record of the bankruptcy Court.**
 16 This Agreement may be changed, modified, or amended only by written instrument
 17 signed by all Parties.

18 (Lexague Decl. Ex. 6. ¶ 10.)(second emphasis added). Watec's Motion anticipates Liu's argument
 19 that the integration clause exempts the 2005 Memorandum Agreement from his release, and argues
 20 that the language set forth in Section 10, the Integration\Modification clause, "merely memorializes
 21 the fact that the parties previously entered the 2005 Memorandum." (Def.'s Mot. for Summ. J. at
 22 13.) Additionally, Watec argues that its obligations under the 2005 Memorandum had already been
 23 discharged as a result of Liu's alleged breach, and that the 2006 Settlement Agreement "does not in
 24 any way resurrect those obligations." Additionally, Watec argues that had Liu intended to exempt
 25 the 2005 Memorandum Agreement [he] would have exempted it from the [general release]. Id.

26 The Court finds this argument unpersuasive. The language of the 2006 Settlement
 Agreement is clear and unambiguous. Had the parties simply intended to memorialize that they had
 entered into the 2005 Memorandum Agreement, they could have so stated. Instead, the 2005
 Memorandum Agreement is addressed in the Settlement Agreement's Integration clause, and
 expressly indicates that the Settlement Agreement represents the entire agreement of the parties, and

1 replaces all prior negotiations and agreements between the parties “with the exception of the [2005
2 Memorandum Agreement]. Id.

3 Additionally, in correspondence to Liu’s counsel dated April 11, 2007, Watec’s Counsel
4 admits the “theoretical” survival of the 2005 Memorandum Agreement in relation to Plaintiff’s claim
5 regarding the assignment of the LCL Mark. Specifically, counsel states, “although the March 31,
6 2005 Memorandum of Agreement theoretically survived the May 16, 2006 post-confirmation
7 settlement between the parties [citing section 10 of the 2006 Settlement Agreement] the
8 Memorandum describes a litany required of (sic) documents and transactions which were designed
9 by the parties to work in tandem.” (Mangano Decl. Ex. C.) The correspondence goes on to indicate
10 that Watec made efforts, including sending drafts of Liu’s proposed reorganization plan and other
11 documents, to Liu’s counsel, in effort to fulfill the 2005 Memorandum Agreement, yet never
12 received any “detailed edits or specific requested changes to those drafts.” Id. This communication
13 is demonstrative that Watec’s counsel believed the 2005 Memorandum Agreement had been
14 incorporated in the 2006 Settlement.

15 This evidence aside however, the Court finds that the 2006 Settlement Agreement is
16 unambiguous, and clearly integrates the 2005 Memorandum Agreement, exempting its conditions
17 from the 2006 Settlement which superceded and/or replaces all prior negotiations and agreements
18 between the parties.

19 **D. The Trademark Assignment**

20 Watec also seeks summary judgment on Liu’s remaining claims by arguing that Liu has no
21 enforceable rights in the LCL Mark. Particularly, Watec avers that the assignment of the LCL Mark,
22 as set forth in the 2005 Memorandum, is an assignment in gross, as it fails to assign any of Watec’s
23 goodwill.
24

25 [T]here are no rights in a trademark alone and . . . no rights can be transferred apart from the
26 business with which the mark has been associated. Mister Donut of America, Inc. v. Mr. Donut, Inc.,

1 418 F.2d 838, 842 (9th Cir. 1969). A sale of trademark rights apart from the good will symbolized
2 by the trademark is known as an “assignment in gross” J. McCarthy, McCarthy on Trademarks and
3 Unfair Competition § 18:17 (4th ed. 2009).

4 The assignment of registered marks is controlled by Section 10 of the Lanham Act, 15 U.S.C.
5 § 1060, which provides that a registered mark “shall be assignable with the goodwill of the business
6 in which the mark is used, or with part of the goodwill of the business connected with the use and
7 symbolized by the mark”. Regarding the assignment of registered marks, the Supreme Court has
8 stated,

9 There is no such thing as property in a trade-mark except as a right appurtenant to an
10 established business or trade in connection with which the mark is employed. . . . the
11 right to a particular mark grows out of its use, not its mere adoption; its function is
12 simply to designate the goods as the product of a particular trader and to protect his
good will against the sale of another’s product as his; and it is not the subject of
property except in connection with an existing business.

13 United Drug Co. v. Rectanus Co., 248 U.S. 90, 97–98 (1918), (citing Hanover Milling Co. v.
14 Metcalf, 240 U.S. 403, 412–414 (1916).

15 Generally, “a transfer which is likely to work a deception upon the public will not be
16 tolerated.” See H.H. Scott, Inc. v. Annapolis Electroacoustic Corp., 195 F.Supp. 208 , 215 (D.C.
17 Md. 1961). There are substantial reasons of public policy, why a bare sale of a company’s good will
18 and trademarks apart from the business in which they are used should not be made and should not be
19 held valid. Id. at 216.

20
21 “Nonetheless, assignments of marks separate from the underlying business have been upheld
22 when the assignee “is producing a product . . . substantially similar to that of the assignor [such that]
23 consumers would not be deceived or harmed” or when there is “continuity of management.”
24 Defiance Button Machine Co. v. C & C Metal Products Corp., 759 F.2d 1053 (citing Marshak, v.
25 Green, 746 F.2d 927 (2d Cir. 1984). Thus, a trademark may be validly transferred without the
26 simultaneous transfer of any tangible assets, as long as the recipient continues to produce goods of

1 the same quality and nature previously associated with the mark. Hy-Cross Hatchery, Inc. v.
2 Osborne, 303 F.2d 947, 950 (C.C.P.A.1962).

3 Here, the Court finds reason to bar summary judgment on Plaintiff's remaining claims. At a
4 minimum, the Court finds a dispute regarding whether Watec is required to assign a measure of good
5 will, with its assignment of the LCL Mark. Specifically, the Court notes that Liu originally
6 conceived the LCL Mark, and established the goodwill associated with its use in connection with a
7 variety of electronic and CCD camera products. Although Liu stated in deposition testimony that he
8 has no immediate plans to use the LCL Mark, (Cabanday Decl. Ex. 20 at 31:2–32:16; 50:9–21;
9 53:3–10) his Declaration states that he intends to use the mark on similar products after it is assigned
10 to him by Watec. (Liu Decl. ¶¶ 3, 5, 13.) As in Defiance Button, where the Court upheld a mark
11 assignment where the assignee was producing a product substantially similar to that of the assignor
12 consumers, and that would not deceive or harm the public, the Court is not persuaded by Defendant's
13 argument that Plaintiff does not have the capacity to do the same.

14 Evidence suggesting that Watec (at least at one time) believed Liu had the capacity to
15 continue producing substantially similar products, is found in the 2005 Memorandum Agreement,
16 which although enjoining Liu from association with Watec, permitted him to compete with the
17 company during the two year period provided for in the Memorandum Agreement.

18 The current case presents an interesting scenario, unlike most cases examining the question of
19 the validity of a trademark assignment. Here, Defendants claim the assignment they agreed to in the
20 2005 Memorandum Agreement is invalid, and therefore unenforceable, and Plaintiff has failed to
21 bring a claim for breach of contract. The majority of cases examining the question of trademark
22 assignments do so in retrospect, examining the actual transfer, assignment documentation, and/or
23 nature of the product produced by the assignor together with the product produced by the assignee.
24 Here, there has been no actual assignment of the LCL Mark, there is no document of assignment, and
25 there is no evidence regarding the types of product that may or may not be produced by Liu.
26

1 However, viewing Liu's testimony, together with the 2005 Memorandum Agreement as a
2 whole, in the light most favorable to the nonmoving party, the Court finds that a material issue of
3 fact exists as to whether Liu has the capacity to continue to produce goods of the same quality and
4 nature previously associated with the Mark.

5 Accordingly, Defendant's Motion for Summary Judgment is denied.

6 **IV. Conclusion**

7 **IT IS HEREBY ORDERED** that Defendant Watec America Corp.'s Motion for Summary
8 Judgment (#52) is **DENIED**.
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10 DATED this 16th day of March 2009.

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13 _____
14 Kent J. Dawson
15 United States District Judge
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